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DECLARATION OF ORIGINAL WORK

BACHELOR OF BUSINESS ADMINISTRATION WITH HONOURS (BUSINESS ECONOMICS) FACULTY OF BUSINESS MANAGEMENT UNIVERSITI TEKNOLOGI MARA "DECLARATION OF ORIGINAL WORK"

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Hereby, declare that:

• This work has not previously been accepted in substance for any degree, locally or overseas, or any other degrees. • This project-paper is the result of my independent work and investigation, except where otherwise stated. • All verbatim extracts have been distinguished by quotation marks and sources of my information have been specifically acknowledged.

Signature: **Date:**

Chapter One

Introduction

1.1 Introduction

The 2008-2009 downturn was caused by an unmaintainable growth of the housing area and following failures in the over-leveraged financial sector, mainly in the United States and Western Europe. An IMF research published in the April 2012 World Economic Outlook discoveries that downturns preceded by greater increases in household debt are more severe. This crisis emphasizes the significant of household credit market and household financial management in defining the constancy of the financial system and the level of economic action. Buyukkarabacak and Valev (2010) showed that quick household credit developments create weaknesses that can precipitate a banking crisis. In additional study, Japelli et al. (2008) find evidence to recommend that bankruptcies tend to be linked with greater household indebtedness. This can aid describe why even moderate shocks can precipitate a massive wave of household avoidances, in a situation where households are even now heavily indebted.

Financial fragility is a state that describes the capability of a household to recover from unexpected financial shocks. This consist of unexpected loss of income due to unemployment or rise in expenditure due to overwhelming factors. Therefore, knowing the factors that make a household fragile to financial shocks is important in household economic research. However, due to high costs of maintaining household data, developing countries are yet to offer such data to the public which has caused in inadequate research of the topic. In Malaysia, household-related data is made accessible to the public but is not complete enough to aid as concrete pragmatic evidence concerning its effect on the low-income households. As far as the research related to finding the macroeconomic factors of household financial fragility in Malaysia is concerned, Abdul Ghani (2010) pointed out a some of the monetary factors that influence the households in Malaysia. However, when it comes to the factors that influence the low-income household in Malaysia, such research is next to non-existent.

Because of the current rise in household debt in Malaysia, the question come out based on the financial sustainability of households in the situation of financial shocks. Studies have shown that due to the low cost of borrowing, people are encouraged to borrow from the banks so landing them into household debt (Hofmann, 2004; Meng, Hoang and Siriwardana, 2013; Mokhtar and Ismail, 2013). In line with the global trend, Malaysia is correspondingly seeing a rise in household borrowing. The question is whether it is the household debt that makes the household fragile to financial shocks? whether there are additional macroeconomic factor contributing toward? Moreover, do these factors frighten low-income households as well? Therefore, this study will try to recognize the factors that can cause Malaysian households fragile to financial shocks and evaluate how these factors would affect the low-income groups.

For this purpose, the literature is reviewed for an expressive study of the variables of interest. The technique of simulation is discussed in the methodology segment where the results and discussion segment describe the findings of the simulation and its effect on the macro and low-income household levels.